

## City of Franklin, Tennessee

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**Credit Profile****US\$16.38 mil General Obligation Refunding Bonds, Series 2010 due 03/01/2024**

Long Term Rating	AAA/Stable	New
Outstanding General Obligation Public Improvement and Refunding Bonds, Series 2009A, 2009B, 2010		
Long Term Rating	AAA/Stable	Affirmed

**Rationale**

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Franklin, Tenn.'s series 2010 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the city's outstanding GO debt. The outlook is stable.

The rating reflects our view of the city's:

- Extremely strong wealth and income indicators as an affluent suburb of Nashville, with a strong corporate campus-type and health care-related employment base of its own;
- Very strong reserves that are buoyed by strong financial management and the commitment to maintain high fund balance levels; and
- Low overall net debt burden with moderate additional capital requirements.

The rating further reflects the full faith and credit pledge of the city. Management indicates it will use bond proceeds to convert its variable-rate debt to a fixed rate.

Franklin, with an estimated population of nearly 59,000, is located just south of Nashville. The city is approximately 50% built-out, with most of that development in the form of low density, very high value single-family residential housing as well as significant amounts of commercial office space. The fiscal 2010 estimated market value of \$9.64 billion implies a per capita value in excess of \$164,800; median household income indicators for Franklin are similarly strong at 126% and 139% of the state and nation, respectively. Given the city's favorable location within the Nashville metropolitan statistical area (MSA) and a number of qualitative appealing factors, there have been no measurable real estate market concerns from



the national economy's recent downturn. In fact, commercial office space continues to be in high demand; a recent insurance company's announcement that it could occupy as much as 150,000 square feet of new space and employ 750 people by 2013 continues a recent trend that will nearly exhaust class A commercial office space in the city. Despite a number of very large employers in the city, it is not dependent on any one of them: As employers, they represent diverse economic sectors that include health care, retail, and several corporate headquarters. Similarly, Franklin is not dependent upon any of its principal taxpayers.

The city's financial position also remains an identified strength. For fiscal 2009, the unreserved, general fund balance of \$28.3 million was equivalent to 58% of operating expenditures, well above the city's policy of 33%. Management anticipates fiscal 2010 to result in a budgeted 50% of expenditures by year's end; total outlays directly related to the impact of flooding that occurred in the city during May 2010 are thus far less than \$1 million, prior to expected reimbursements for all but 12.5% of expenditures. Part of the reason management has established such high minimum reserves is because local option sales tax revenues comprise more than 40% of general government revenues, and the main revenue generator is a large retail development. The Cool Springs Galleria area includes big-box retailers, boutique stores, and name brands at all price ranges. The depth and diversity of Franklin's retail sector has helped the slowdown in retail sales from being more pronounced. March 2010 retail sales activity showed the first year-over-year positive month in nearly two years, with April 2010 results also providing cautious optimism.

In our view, between the city's ultra-conservative revenue projections and aggressive planned expenditure cuts throughout the year, fiscal 2010 should result in a nearly \$1 million spend-down of reserves, not including a one-time \$2 million supplemental — and discretionary — payment to the pension fund above the annual required contribution. The city adopted a fiscal 2011 budget with similarly conservative assumptions, no tax rate increase, and the use of less than \$1 million in reserves. Additionally, the property tax rate of 43.4 cents per \$100 of taxable assessed valuation (AV) for fiscal 2010 represented the 20th consecutive year that a tax rate increase has not been necessary. This tax rate — among the lowest in the state — further provides the city revenue raising flexibility.

The city's water and sewer fund has an equally strong financial position: The \$4.7 million in unrestricted cash in fiscal 2009 was equivalent to more than 90 days of operating expenses, not even including various other designated cash reserves. Management approves biennial budgets for this enterprise fund, and it has approved rate increases for both fiscals 2010 and 2011 that it anticipates will allow the fund to continue to self-support its allocable share of GO debt.

Standard & Poor's deems Franklin's financial management practices "strong" under its Financial Management Assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable. Highlights include an extremely well-delineated debt management plan, frequent use of intra-year budgetary monitoring, and a strongly articulated reserve policy. Furthermore, management intends to adopt a five-year financial plan for its general fund by fiscal 2011; it currently uses such a long-term plan for its utility fund.

The city's overall net debt burden is what we consider a moderate 3.6% of market value, with about \$30 million in planned capital expenditures during the next three years. Additionally, Standard & Poor's has assigned Franklin a Debt Derivative Profile (DDP) score of '2.0' on a four-point scale where '1' represents the least risk. The score of '2.0' reflects our view that the district's swap portfolio have low credit risk due to:

- The swaps' average economic viability;
- The city's strong management practices, including a comprehensive swap policy; and
- A swap counterparty that is currently rated in the low-investment grade category.

The city has two floating- to fixed-rate swaps:

- A Depfa Bank (BBB/Watch Positive/A-2) constant maturity swap for \$20.0 million and
- A SunTrust Bank (A-/Negative/A-2).

Both swaps had an unfavorable market-to-market value as of the end of fiscal 2009, although it was what we consider small at barely \$2.2 million combined. Management has indicated it would not terminate the swaps unless it was more economic to do so.

### **Outlook**

The stable outlook reflects Standard & Poor's expectation that the city's wealth, reserve levels and fiscal practices will allow for continued financial performance commensurate with a 'AAA' rating.

### **Related Criteria And Research**

USPF Criteria: GO Debt, Oct, 12, 2006